BEFORE THE

PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. For Approval of Rate Increases and Revised Rate Schedules and Rules	)))))))	DOCKET NO. 2008-0083

DEPARTMENT OF DEFENSE'S FIRST

SUBMISSION OF INFORMATION REQUESTS

AND

CERTIFICATE OF SERVICE

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ATTORNEYS FOR
DEPARTMENT OF DEFENSE

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

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DEPARTMENT OF DEFENSE'S FIRST
SET OF INFORMATION REQUESTS
TO HAWAIIAN ELECTRIC COMPANY, INC.

COMES NOW, DEPARTMENT OF DEFENSE by and through its undersigned attorneys and hereby submits its First Set of Information Requests to Hawaiian Electric Company, Inc.

DATED: Honolulu, Hawaii, September 5, 2008.

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ATTORNEYS FOR
DEPARTMENT OF DEFENSE

DOCKET NO. 2006-0386

DEPARTMENT OF DEFENSE'S FIRST

SUBMISSION OF INFORMATION REQUESTS

TO HAWAIIAN ELECTRIC COMPANY, INC.

INSTRUCTIONS

In order to expedite and facilitate Department of Defense's review and analysis in the above matter, the following is requested:

1. For each response, HECO should identify the person who is responsible for preparing the response as well as the witness who will be responsible for sponsoring the response should there be an evidentiary hearing;

2. Unless otherwise specifically requested, for applicable schedules or workpapers, HECO should provide hard copies of each schedule or workpaper together with one copy of each such schedule or workpaper on electronic media in a mutually agreeable format (e.g., Excel and Quattro Pro, to name two examples); and

3. When an information request makes reference to specific documentation used by HECO to support its response, it is not intended that the response be limited to just the specific document referenced in the request. The response should include any non-privileged memoranda, internal or external studies, assumptions, HECO instructions, or any other relevant authoritative source which HECO used.

4. Should HECO claim that any information is not discoverable for any reason:

   a. State all claimed privileges and objections to disclosure;

   b. State all facts and reasons supporting each claimed privilege and objection;

d. If HECO claims that a written document or electronic file is not discoverable, besides complying with subparagraphs 4(a-c), identify each document or electronic file, or portions thereof, that HECO claims are privileged or will not be disclosed, including the title or subject matter, the date, the author(s) and the addressee(s).

5. Please provide each response in electronic format (if available) as well as paper. Please provide two paper copies of each response, with one copy going directly via overnight delivery to DOD at the following address:

Dr. Khojasteh Davoodi
NAVFAC HQ ACQ-URASO
1322 Patterson Avenue, S.E., Suite 1000
Washington Navy Yard
Washington, D.C. 20374-5065
E-mail: Khojasteh.Davoodi@navy.mil
Ph. (202) 685-3319
Fax: (202) 433-7159

and one copy going directly via overnight delivery to DOD's consultant at the following address:

Hill Associates
Mr. Stephen Hill
P.O. Box 587
4000 Benedict Road
Hurricane WV 25526
E-mail: hillassociates@gmail.com
Ph. (304) 562-3645

Please also provide responses in electronic format to Dr. Davoodi and Hill Associates at the E-mail addresses above, and to Mr. David Coker at david.coker@navy.mil and Mr. Gayle Chestnut at gayle.chestnut@navy.mil.

DEPARTMENT OF DEFENSE'S FIRST SET OF INFORMATION REQUESTS

TO HAWAIIAN ELECTRIC COMPANY, INC.

DOCKET NO. 2008-0083

The following information requests are directed to HECO.

DOD-1 For the following time periods: June 30, September 30, and December 31, 2007, and March 31 and June 30, 2008 (as soon as available), please provide the following information for Hawaiian Electric Industries, Inc. and Hawaiian Electric Company:

a) Embedded cost rates for long-term debt, short-term debt, other debt and preferred or preference stock;

b) Computation of embedded cost rates of long-term debt;

c) Computation of embedded cost rates of short-term debt; and

d) Computation of embedded cost rates of preferred or preference stock.

Note: Schedules should include date of issue, maturity date, dollar amount, coupon rate, net proceeds, annual interest paid and balance of principal, where applicable.

DOD-2 a) Please list all of Hawaiian Electric Industries' subsidiaries, providing a short description of the business of each and indicate whether or not the subsidiary is active or inactive.

b) Please list all of Hawaiian Electric Company's subsidiaries, providing a short description of the business of each and indicate whether or not the subsidiary is active or inactive.

c) Please provide a consolidat<u>ing</u> (not consolidat<u>ed</u>) balance sheet for Hawaiian Electric Company at December 31, 2007, or the most recent date available.

DOD-3 With regard to the most recent available published balance sheet for Hawaiian Electric Company, please respond to the following:

a) Please identify any debt or other liability that is directly attributable to, or is deemed to support unregulated operations. If not, please so specify.

b) Please identify any assets on the balance sheet that are not listed specifically as utility plant investment (e.g., cash investment balances, land held for future non-regulatory use, investments in unregulated companies (identify each).

DOD-4 Please provide a complete transcription of the most recent analysts' earnings presentation made by Hawaiian Electric Industries.

DOD-5 Please provide a complete, detailed copy of Hawaiian Electric Company's most recent bond rating agency presentation (i.e., not a slide-show summary, but the volume that discusses in detail the Company's operations, generation, transmission assets, purchased power contracts, financial projections and service territory economics). Also please consider this an on-going request, so that, if the Company made a presentation in 2007 or 2008 and makes another presentation during this rate proceeding, the Company is requested to provide the most recent presentation.

DOD-6 a) Please provide the monthly short-term debt balances for Hawaiian Electric Industries, Inc. and Hawaii Electric Company for each month from January 2006 through the most recent month available.

b) Please provide, for each month, the monthly cost-rate of that short-term debt for Hawaiian Electric Industries and separately for Hawaiian Electric Company.

c) Please provide a narrative description of changes to Hawaiian Electric Industries' short-term debt financing arrangements, as well as inter-company borrowing arrangements between Hawaiian Electric Industries subsidiaries.

DOD-7 Please provide an income statement for Hawaiian Electric Company at the end of each fiscal year over the past ten years.

DOD-8 Please provide a description of Hawaiian Electric Company's ten largest industrial and commercial customers (name of customer can be withheld), and indicate what percentage of the Company's total 2006 and 2007 kWh amount and revenues each represents. Also, please provide copies of any inter-company reports analyzing the potential of any of the listed customers to self-generate, and outlining how the Company would respond to that possibility.

DOD-9 If not provided in the material presented to the bond rating agencies, please provide a copy of the Company's (HECO's) most recent five-year financial forecast (or most similar document). If the Company does not prepare a five-year financial forecast, please explain why and provide a complete copy of the most recent longest-term financial forecast employed by the Company.

DOD-10 Please provide a copy of HECO's FERC Form 1 for 2007.

DOD-11 At page 95 of Hawaiian Electric Industries 2007 Annual Report, the company indicates that the expected long-term return on its retirement plan assets is 8.50% and the target asset mix of that portfolio is currently 70% equities and 30% debt and other investments.

a) Please provide the documentation supporting that expected long-term return assessment, including long-term expectations for each class of asset in the portfolio (i.e., equities, debt, and other).

b) Please provide any internal documents prepared by the Company that support the long-term investment return expectations, as well as any such documents or studies supporting the "projected asset class returns provided by the plans' actuarial consultant."

WITNESS T-6 DANIEL CHING

DOD-12 Does the Company keep track of how accurate its purchased power forecasts have been? If not, please explain why not, if so, please provide the most recent such analysis undertaken by the Company.

DOD-13 Please provide a comparison of the purchased power forecasts utilized in the most recent four rate proceedings with the actual purchased power expenses subsequently realized. Please provide supporting documentation.

DOD-14 If the Company's purchased power expenses turn out to be, for example, 25% higher than projected in calendar year 2009, a) would the Company be able to recover those higher costs from ratepayers and b) how long would it take to recover the full amount of those expenses (assuming none of the excess costs were recovered in 2009)? Please provide quantitative support for your response.

DOD-15 [HECO-T-6, p. 4] Mr. Ching notes that power purchased from AES Hawaii and Kalaeloa are fully dispatchable by HECO.

a) What percentage of HECO's purchased power demand and energy are AES and Kalaeloa projected to represent? Please provide support for your response?

b) Is it advantageous for the Company to be able to include purchased power in its dispatch process? Please explain why and compare the efficiency of that to purchased power that the Company is not able to include in its dispatch process.

c) In Mr. Ching's opinion is the inclusion of purchased power in the purchaser's dispatch a normal occurrence in the industry? Please provide support for your response.

d) Please list all of HECO's Oahu plants that would be selected to run in order of the most economically efficient.

WITNESS T-19 ROGER A. MORIN

[Note: If Dr. Morin's response to any of the following interrogatories is the same as his answer in HECO's last rate proceeding, please so indicate.]

DOD-16 Please provide copies of all of Dr. Morin's supporting schedules (HECO T-1901 through HECO T-1907) in electronic format with cells unlocked, formulas and original data available.

DOD-17 Has Dr. Morin changed the methodology used in his testimony in any way since he last testified for HECO? If so, please explain how and why the change was made.

DOD-18 [HECO T-19, pp. 5-6]

a) What are the consequences of allowing a return on equity that overstates the cost of capital?

b) Is a goal of regulation to allow a return on common equity equal to its cost? If not, please explain why not.

DOD-19 [HECO T-19, p. 7, ll. 16-23] Does Dr. Morin have an opinion with regard to the relative risk of HEI and HECO? If so, which does he believe has greater risk and why. If not, please explain why he elected to analyze HECO as a stand-alone operation.

DOD-20 [HECO T-19, pp. 10-11]

a) Is 320 US 391the correct cite for *Hope*?

b) In the determination of the "end result test" does *Hope* offer any guidance as to whether or not the market value of the firm should be of concern to regulators? That is, if rates are reduced and firm value declines as a result, does regulation fail the end result test for that reason? Please explain your response.

c) In Dr. Morin's opinion did the *Hope* decision confirm that utility rates should be based on book value (depreciated original cost) rather than replacement cost or market value? If not, please explain why not, and cite to pertinent portions of that decision.

DOD-21 [HECO T-19, p. 18, citing Phillips]

a) Does Dr. Phillips also comment on the reliability of the Risk Premium method?

b) If so, please explain why Dr. Morin elected to quote only Phillips' comments regarding the DCF, and eliminate his comments regarding other market-based equity cost estimation methods.

c) What is Dr. Phillips' preferred method of equity cost estimation?

DOD-22 [HECO T-19, p. 23, l. 17-18]

a) When did Moody's discontinue publication of its Electric Utility Index?

b) If Moody's no longer publishes data regarding its Electric Utility Index please explain why Dr. Morin believes data related to that index is representative of current investor opinion.

c) What companies were included in the index when Moody's discontinued publishing data on that index? Also, if the companies included in Dr. Morin's representation of Moody's index are different from those actually published by Moody's, please explain why.

d) What is the percent of revenues from electric operations for each of the companies in Dr. Morin's Moody's Electric Utility Index?

DOD-23 [HECO T-19, pp. 25-27]

a) Please explain why Dr. Morin elected not to mention either 1) the recent research regarding the market risk premium, which indicates that current MRP expectations are below historical averages or 2) his own published opinion that a reasonable range of market risk premium is from 5% to 8%.

b) Does Dr. Morin's opinion regarding a reasonable range of market risk premium of 5% to 8% comport with that of Brealey and Meyers? If not, please explain why not.

DOD-24 [HECO T-19, p. 26]

a) Please provide all the data on which Dr. Morin's S&P 500 DCF analysis is based.

b) What is the current market-to-book ratio of the S&P 500 companies used in Dr. Morin's analysis? Please provide support for your response.

c) Does Dr. Morin's DCF estimate for the S&P 500 account for the fact that market prices are different from book value? If so, how; if not, why not?

DOD-25 [HECO T-19, p. 27] What is the average market risk premium for utilities published in the Harris study?

DOD-26 [HECO T-19, p. 37] Please provide support from the financial literature on which the DCF is based (e.g., Williams (1938), Gordon (1962), Gordon (1974), or any other source Dr. Morin believes to be seminal to the DCF) that supports the contention that the DCF "assumes that dividends are paid at the end of each year..."

DOD-27 [HECO T-19, p. 43, ll. 4, 5] Please provide the empirical support for Dr. Morin's statement that "the electric utility industry capital market data is highly unstable at this time."

DOD-28 [HECO T-19, p. 45, ll. 6, 7] Please explain why it is reasonable to assume that the investment risk of a utility that has 50% electric utility operations is the same as that of HECO.

DOD-29 [HECO T-19, p. 47] In his Direct Testimony in HECO's most recent rate proceeding (at page 19 of that testimony), Dr. Morin testified that the DCF provides accurate estimates of the cost of equity only when the stock price and book value are reasonably y similar. Please explain why he has omitted that opinion in his Direct Testimony in this proceeding.

DOD-30 [HECO T-19, p. 55, ll. 5, 6] Please provide support for the cited statement regarding "average" impact of increases in debt ratios.

DOD-31 [HECO T-19, p. 52] Dr. Morin adds 25 basis points to account for the differences in risk between HECO and his electric utility sample group.

a) Please list the bases for business risk comparison between HECO and his sample group, providing, for each category of comparison, the risk measurement for HECO and each company in the sample group.

b) Has Dr. Morin made a quantitative comparison between HECO's purchased power risk and the purchased power risk of each company in his sample group. If so, please provide the data used to make that comparison and if not, please explain why not.

DOD-32 [HECO T-19, p. 56, ll. 3-7] Has Dr. Morin calculated the impact of purchased power obligations on the capital structures of his sample group of companies? If so, please provide those data; if not, please explain why not.

DOD-33 [HECO T-19, p. 58, ll. 2-5]

a) What is the basis of Dr. Morin's "understanding" with regard to bond rating agencies treatment of purchased power obligations absent a fuel adjustment clause?

b) Please provide any available evidence that bond rating agencies placed more weight on purchased power debt equivalents in assessing HECO's bond rating prior to the implementation of a fuel adjustment clause. If such evidence is not available, please so state.

DOD-34 [HECO T-19, HECO-1901, p. 1]

a) Please provide the percent of revenues from electric operations for each of the companies listed.

b) Please provide the bond ratings of each of the companies listed.

c) Please provide the amount of purchased power used by each company.

d) Please provide the percent of common equity as a percent of total capital in each company's capital structure.

DOD-35 [HECO T-19, HECO-1901, p. 2]

a) Please provide the percent of revenues from electric operations for each of the companies listed.

b) Please provide the bond ratings of each of the companies listed.

c) Please provide the amount of purchased power used by each company.

d) Please provide the percent of common equity as a percent of total capital in each company's capital structure.

DOD-36 [HECO T-19, HECO-1909, p. 8] If the example is the same, but the market-to-book ratio is 1.0, is the resulting growth rate greater or less then the assumed 5%? Why?

DOD-37 Please provide a complete copy of each of the articles, and pertinent chapters of each text cited in Dr. Morin's Testimony not otherwise requested in the above interrogatories.

WITNESS T-20 T.SEKIMURA

[Note: If Ms. Sekimura's response to any of the following interrogatories is the same as her answer in HECO's last rate proceeding, please so indicate.]

DOD-38 [HECO T-20, p. 8, l. 4] Please explain why a financial manager would not want to obtain funds at the lowest possible cost rather than the lowest "reasonable" cost.

DOD-39 [HECO T-20, p. 9, ll. 8] To Ms. Sekimura's knowledge, has HECO ever been unable to access the capital markets? If so, please provide any available evidence that such an event occurred.

DOD-40 [HECO T-20, p. 10, ll. 4, 5] Please explain how independent power producers rely on the Company's credit in order to finance their projects, and provide supporting documentation.

DOD-41 [HECO T-20, p. 15, ll. 11-21] Regarding surcharge mechanisms, please explain how, if the Company is relieved of all cost risks with renewable energy investments, it would have incentive to ensure that only the most cost-effective projects are undertaken.

DOD-42 [HECO T-20, p. 16, ll. 11, 12] Please provide support for the statement made regarding S&P perceptions of risk regarding HECO's purchase power obligations, "over the years."

DOD-43 [HECO T-20, p. 18, l. 23 through p. 19, l. 1] Please explain how uncertainty regarding capital expenditures increases financial risk as opposed to business risk.

DOD-44 [HECO T-20, p. 21, ll. 3-6] Please explain how, if DSM-related reductions in per customer usage is accurately estimated, DSM programs increase risk for HECO.

DOD-45 [HECO T-20, p. 22, ll. 24-26] Is it unusual for a utility in a time period in which it is building plant to have "negative cash flow" (i.e., to rely on the capital markets for some of the funding of that plant)? If the response is affirmative, please provide all available support.

DOD-46 [HECO T-20, p. 24, ll. 5, 6] Is it also true for depreciation expense, taxes and corporate overhead that those expenses must be paid "before shareholders receive any compensation for the use of their funds?? If not, please explain why not.

DOD-47 [HECO T-20, p. 24] Please explain how a competitive bidding requirement could result in "additional power purchase contracts." Provide actual examples from Company experience to support your response.

DOD-48 [HECO T-20, pp. 26, 27]

a) Please provide a complete copy of the May 23, 2008 S&P report on Hawaiian Electric Company cited in footnote 25.

b) Please provide copies of all correspondence, (letters, e-mails, telephone logs) between HECO/HEI and Standard & Poor's during the time period between the Company's most recent bond rating presentation and the publication of the May 23, 2008 report on HECO.

c) What has been the S&P bond rating for HEI and HECO each year from 2000 through 2008? Please provide support for your response.

DOD-49 [HECO T-20, p. 30, ll. 4-7] Are investors aware of HECO's purchased power obligations? Please provide support for your response.

DOD-50 [HECO T-20, p. 35, ll. 11-22] Please provide documentation from Standard & Poor's which shows that the manner in which bond rating agency calculates HECO's PPA debt imputation for each of the Company's purchased power contracts comports with that included in the Company's testimony in this proceeding. [For example, for each purchased power agreement, please show the net present value equals the assumed annual payments, discounted at the Company's cost of debt and adjusted by 50%, and that the adjusted present value of all of those purchased power contracts sums to the total amount of debt imputed by S&P.]

DOD-51 [HECO T-20, pp. 36, 37, ll. 1-4]

a) What portion of purchased power expenses are recovered through the ECAC mechanism and what portion is recovered in base rates? Please provide support for your response.

b) Please provide the dollar amount of purchased power expenses recovered through base rates versus the costs of purchased power to be recovered in base rates each year over the past ten years. Please provide supporting documentation.

DOD-52 [HECO T-20, p. 37]

a) What percentage risk factor did S&P apply to HECO's purchased power obligations prior to the passage of Act 162?

b) What was HECO's S&P bond rating prior to the passage of Act 162?

c) What has been HECO's S&P bond rating subsequent to the passage of Act 162?

DOD-53 [HECO T-20, pp. 40, footnote 34] Please provide a complete copy of HECO WP-1709, from Docket 7766.

DOD-54 [HECO T-20, p. 46, l. 16]

a) Please provide WP-2016 in an electronic spreadsheet format with all cells unlocked, formulas available and original data available.

b) Has the Company included increased depreciation/amortization associated with purchased power contracts? If not, please explain why not.

DOD-55 [HECO T-20, pp. 52] Is Ms. Sekimura aware of any other electric utility that issues all of its long-term debt in the form of non-taxable revenue bonds?

DOD-56 [HECO T-20, p. 57] When HECO sells revenue bonds and does not use all of the proceeds for construction and the amount remaining with the trustee draws interest (i.e., there is a "net income" position), does that effect the embedded cost of debt paid by ratepayers? If so, please show how the cost of debt provided by ratepayers is adjusted to account for interest income on revenue bond funds not spent; if not, please explain why retaining interest income represents a fair balance of ratepayer and stockholder interests.

DOD-57 [HECO T-20, pp. 60, ll. 20, 12] Please provide a comparison between the ratemaking common equity balance at 21/31/06 with the actual book amount, explaining and reconciling all differences.

DOD-58 [HECO T-20, p. 60, l. 18] Please explain why FASB requires that a positive AOCI balance be deducted from common equity, and why it is reasonable to restore that balance for ratemaking purposes.

DOD-59 [HECO T-20, p. 60]

a) Please explain why it would be unreasonable to split the responsibility for providing a return on AOCI balances between stockholders and ratepayers by including only one-half of the average balance of AOCI in 2007, 2008 and 2009 in the ratemaking capital structure.

b) Please provide the projected 2009 capital structure with one-half of the projected AOCI balances. Provide supporting documentation for your response.

DOD-60 [HECO T-20, p. 62, ll. 23, 24] Please provide the debt cost estimate provided by "the investment banker," as well as all related correspondences.

DOD-61 [HECO T-20, p. 66, ll. 5-7]

a) Does Ms. Sekimura believe that 11.25% is higher than, equal to or lower than "a fair and reasonable rate of return"?

b) Would an allowed return of 15% give the Company an opportunity to earn a fair and reasonable rate of return? If so, please explain why.

DOD-62 [HECO T-20, HECO-2008]

a) S&P indicates that "HEI...has $307 million of unsecured medium term notes to support parent and utility operations." Are any of those monies included in the requested ratemaking capitalization? If not, please explain why not.

b) S&P states "HEI may as a policy issue debt at the holding company as a source of utility equity. HECO also pays a distribution to HEI in order to assist it in meeting interest payments on debt outstanding, and issue common dividends."

1) Please identify any debt at HEI that was issued to be a source of utility equity.

2) Please identify any distributions in 2007 that were used to assist HEI in meeting its interest payments.

c) S&P indicates that "HECO's credit drives are intricately linked with that of its parent, HEI." Please indicate 1) whether this fact is addressed anywhere in the Company's testimony and 2) how this impacts the credit quality of HECO, given the turmoil in the international debt markets.

CERTIFICATE OF SERVICE

I hereby certify that one copy of the foregoing document was duly served upon the following parties, by personal service, hand-delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR sec. 6-61-21(d).

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DATED: September 5, 2008, Honolulu, Hawaii

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